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POLICY STATEMENT

Cynically Attacking Our Children's Future

The Clinton-Gephardt Abandonment of Social Security

November 18, 1999

After failing to submit Social Security legislation for seven years, on October 26, 1999, President Clinton finally submitted to Congress a sham plan that leaves the pay-as-you-go Social Security System just as it is: completely unfunded.

As the General Accounting Office stated on November 9, 1999, the Clinton-Gephardt Social Security proposal would have "the same effect on the economy and the federal budget as a policy of no action." It would, the GAO says, "simply continue spending and revenue along its current path while making no change in Social Security."¹

By deceiving the American people with smoke and mirrors, Clinton—and now House Minority Leader Dick Gephardt, who has introduced the plan in Congress—have made it clear they intend never to introduce a genuine Social Security reform plan.

Under this "stand pat" plan, today's workers and children would have to pay over \$7 trillion in higher taxes, or take a similarly huge cut in benefits, or suffer the inflationary damage of massive increases in deficit spending, or some combination of all three.

Benedict Cohen
Executive Director

¹ Testimony of David Walker, Comptroller General, GAO, before the House Ways and Means Committee, Nov. 9, 1999.

The trillions of dollars in IOUs that the Clinton-Gephardt plan would place in the Social Security Trust Fund would add precisely nothing with which to pay the tab for unfunded future Social Security benefits, estimated by the Social Security Trustees at *\$20 trillion* in constant dollars. If the Clinton-Gephardt plan were implemented, the Social Security system's obligation to workers would still be 100 percent unfunded. The trillions of dollars owed by Social Security would have to be paid by heavy new taxes and borrowing on the backs of today's workers and our children—starting in just twelve years.

By failing to fundamentally reform Social Security, the Clinton-Gephardt plan *ensures* that the Social Security program will go into the red in 2014, as currently projected. That is because the demographic problems facing Social Security are hard, inexpugnable fact: within 30 years, the number of Americans over 65 will *increase by 90 percent*.

This impending retirement of the Baby Boom generation requires fundamental reform, not accounting gimmicks. Yet by doing nothing to reform Social Security for two entire terms of his administration, and now by explicitly abandoning all hope of reform in his sham Social Security proposal, Clinton—and the Democrat members of Congress who have joined his do-nothing approach—are simply choosing to ignore this enormous demographic challenge facing the Social Security program.

The Clinton-Gephardt plan does nothing to give individual workers the chance to put real assets behind their Social Security, even though this is the best way to begin to provide funding for the program's looming unfunded liabilities. Indeed, the Clinton-Gephardt proposal abandons altogether the President's 1999 State of the Union promise of personal retirement accounts.

Nor does the Clinton-Gephardt plan do anything to pay the existing mountain of IOUs in the Social Security Trust Fund. Instead, it merely *adds* nearly *\$7 trillion more* in IOUs to the Trust Fund—bookkeeping transactions which the President himself admits do nothing to bolster Social Security's solvency.

As the President's own budget proposal this year stated:

“[Trust Fund] balances are available to finance future benefit payments and other trust fund expenditures—but *only in a bookkeeping sense*. ... *They do not consist of real economic assets* that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, *will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures*. The existence of large trust fund balances, therefore, does not, by itself, have *any* impact on the Government's ability to pay benefits.” (Emphasis added.)

The *only* effect of these bookkeeping gimmicks would be to artificially inflate the Social Security Trust Fund. What's more, even accepting the dishonest scheme employed in the Clinton-Gephardt plan, the Trust Fund *still* falls drastically short of achieving solvency for 75 years—the administration's stated goal.

The Clinton-Gephardt plan's very complexity is designed to divert public and media attention from the unaltered fact that without real reform, the Social Security system will begin running deficits in 2014, and by 2030 will run an *annual* cash-flow deficit of more than one-quarter *trillion* dollars. By 2070, under the Clinton-Gephardt “reform,” Social Security will incur the same staggering deficit that

is currently projected with no reform at all—over *one half trillion dollars per year*. That is the unfair burden President Clinton and Dick Gephardt are willing to place on America's children.

The Clinton proposal (H.R. 3165), sponsored by Gephardt and the rest of the Democratic leadership of the House, expressly guarantees that for the next fifteen years *not a penny* from the Social Security surplus, or any other source, will be spent to bolster Social Security. The Clinton-Gephardt plan is content merely to propose an array of parliamentary devices purportedly guaranteeing that excess Social Security taxes will be used to pay down the national debt. This is of course a worthy, if unrelated, goal—but *the Clinton-Gephardt proposal does not accomplish it, either*. Because it merely converts publicly held debt into Social Security Trust Fund debt, the national debt would not be reduced at all. Taxpayers would still have to make good on the interest and principal obligations from U.S. Treasury debt in the Trust Fund, just as they do for U.S. Treasury debt held by the public.

The Clinton-Gephardt proposal does not save Social Security but rather condemns today's workers and our children to suffering from its colossal failure. Sadly, the same Clinton administration that has sponsored this abandonment of Social Security to certain collapse has also proposed a federal budget for fiscal year 2000 that would have diverted \$12.2 billion from the Social Security surplus into massive new spending initiatives. And the Democratic leadership that has joined the Clinton fraud is the very same that for decades spent Social Security taxes on other government programs rather than setting them aside for the future.

President Clinton—and now the Democratic leaders of the Congress who have joined his plan to do nothing—are wasting what may be our last opportunity to use Social Security surpluses in the short run to give workers their own personal retirement accounts, which could then supplement government's ability to pay future Social Security benefits. Such real reform would increase the returns that workers earn on their payroll taxes and at the same time ensure—far better than the mere parliamentary devices in the Clinton-Gephardt plan—that a worker's payroll tax will *not* be diverted into spending on other government programs.

Genuine reform of Social Security requires, at a minimum, that today's Social Security tax surpluses be dedicated to personal retirement accounts for each worker. That is why Republicans are committed not just to creating the Social Security lockbox, but to crediting the amounts set aside to the accounts of individual workers.

All that the Clinton-Gephardt Social Security plan offers America's workers and our children is a generous helping of IOUs, deep cuts in their Social Security benefits, and a \$7 trillion tax increase. But making our children pay the bills, and leaving their future unsecured, can never be the answer. Sadly, both the President and the minority in Congress have signaled that they are unwilling to join in crafting genuine reform that begins to put real economic assets behind the promises that Social Security has extended to every American worker.

Through personal retirement accounts, dedication of the Social Security surplus to real economic assets that back the system's promises, and an end to phony bookkeeping and unfunded liabilities, we *can* save Social Security. But presidential leadership is an essential ingredient, too, and for seven years and counting it has been entirely lacking. Now the Clinton-Gephardt plan's formal abandonment of Social Security has served official notice to America's children: you will have to wait, and hope, still longer.

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